Independent Auditor's Report
To the Members of Morses Club PLC

Opinion on financial statements of Morses Club PLC

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 25 February 2017 and of the Group's profit for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

The financial statements that we have audited comprise:

- the Consolidated Income Statement;
- the Group and Parent Company Balance Sheets;
- the Group and Parent Company Statements of Changes in Equity;
- the Group and Parent Company Cash Flow Statements; and
- the related notes 1 to 26.

The financial reporting framework that has been applied in their preparation is applicable law and IFRS as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Summary of our audit approach

Key risks	The key risks that we identified in the current year were: – Impairment provisioning; and – Revenue recognition.
Materiality	The materiality that we used in the current year was £0.95m which was determined on the basis of 7.5% of adjusted pre-tax profit. Pre-tax profit was adjusted for Initial Public Offering ("IPO") costs of £2.2m, as this is a one-off cost and would distort the materiality level.
Scoping	The Group is made up of Morses Club PLC, which is the main trading entity, and its two subsidaries, being Shopacheck Financial Services Limited and Shelby Finance Limited. All entities in the Group are within our audit scope and the audit of these entities are performed directly by the Group audit team.

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Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group	
We are required to state whether we have anything material to add or draw attention to in relation to: – the Directors' confirmation on page 25 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; – the disclosures on pages 26-27 that describe those risks and explain how they are being managed or mitigated; – the Directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties as to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and – the Directors' explanation on page 25 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We confirm that we have nothing material to add or draw attention to in respect of these matters. We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.
Independence	
We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.	We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.
Our assessment of risks of material misstatement	
The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	

Risk description	How the scope of our audit responded to the risk	Key observation
Impairment provisioning		
The assessment of the Group's calculation of the £34.8m provision for impairment losses against loans and receivables is complex and requires management to make significant judgements, being: the identification of loss events (the "Impairment Trigger"); the estimation of future cash flows used to determine the provision required; and the level of 'incurred but not reported' ("IBNR") risk in the element of the book that has not reached the Impairment Trigger. Changes to these assumptions can have a material impact on the impairment provision. We therefore focus our work on assessing the appropriateness of these assumptions. Management's associated accounting policies are detailed on pages 54-58 with detail about judgements in applying accounting policies and critical accounting estimates on pages 57-58 and within the Audit Committee report on page 35. The quantum of the provision is set out in note 14 to the financial statements.	We first understood management's process and key controls around impairment provisioning by undertaking a walk-through. Following identification of the key controls we evaluated the associated design and implementation of such controls. Specifically, we assessed the implementation of controls that the Group has in place to manage the risk of inappropriate assumptions being used within impairment provisioning. We used internal IT specialists to test the general IT controls over the loan administration systems. We performed design and implementation testing over the manner in which data is extracted from these systems to determine impairment and completed walk-through testing of the models to confirm that they are working as intended. We used data analytics to test the mechanical accuracy and completeness of the models on which impairments are calculated by using our IT specialists to test the extraction of source data from the lending systems and recalculating the provision in accordance with the approved provisioning policy. We challenged the appropriateness of the key management assumptions used in the impairment calculations for loans and receivables including, specifically, the estimation of future cash flows and the identification of impaired accounts. This involved analysis of the Group's historical cash collection experience and benchmarking the key assumptions to external economic and industry data.	We concluded that the impairment models were working as intended and our IT specialists' work around the completeness and accuracy of data identified no significant issues. The estimation of future cash flows within the models were reasonable, albeit with a measure of conservatism applied. We found the assumptions relating to the identification of impaired accounts within the incurred loss models to be appropriate.

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Risk description	How the scope of our audit responded to the risk	Key observation
Revenue recognition		
Revenue recognition and specifically the application of the requirement in IAS 39 "Financial Instruments" ("IAS 39") to recognise revenue on loans using an effective interest rate method is a complex area. It requires management to make a judgement relating to the expected life of each loan to determine the effective interest rate. Changes to these assumptions could significantly impact the level of revenue recognised in any given period. We therefore focus our work on assessing the appropriateness of estimated behavioural lives and the validity and accuracy of the deferred revenue balance. Management's associated accounting policies are detailed on pages 54-58 with detail about judgements in applying accounting policies and critical accounting estimates on pages 57-58 and within the Audit Committee report on page 35.	We first understood management's process and key controls around revenue recognition by undertaking a walk-through. Following identification of the key controls we evaluated the associated design and implementation of such controls. Specifically, we assessed the implementation of controls that the Group has in place to manage the risk of inappropriate assumptions being used within the effective interest rate models. We used internal IT specialists to test the general IT controls over the loan administration systems. We performed design and implementation testing over the manner in which data is extracted from these systems to determine the effective interest rate and completed walk-through testing of the models to confirm that they are working as intended. We tested the mechanical accuracy of the models which are used to determine revenue by agreeing a sample of model inputs back to underlying source data. We used internal IT specialists to independently create an expectation of the gross loan originations and associated revenue to recalculate the level of deferred revenue to be held on the balance sheet. The effective interest rate was also recalculated for a sample of loans. We challenged management's key assumptions, including the expected life of each loan, by reference to the Group's historical experience, and assessed whether the revenue recognition policies adopted were in compliance with IAS 39.	We found the models to be working as intended and our IT specialists' work around the recalculation of the gross loan originations identified no significant issues. The underlying assumptions applied within the models, specifically in respect of the expected life of each loan used to create the product's effective interest rate, were found to be reasonable.

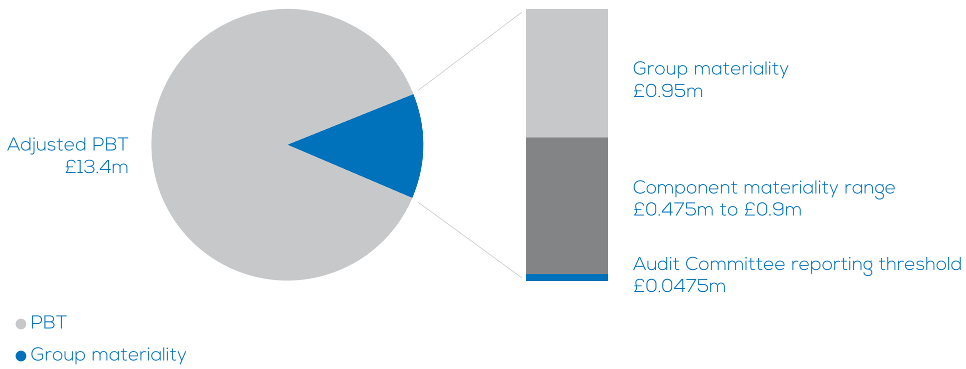
These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	£0.95m.
Basis for determining materiality	7.5% of adjusted pre-tax profit.
Rationale for the benchmark applied	We determined materiality using adjusted pre-tax profit as we considered this to be the most appropriate measure to assess the performance of the Group. Pre-tax profit was adjusted for Initial Public Offering ("IPO") costs of £2.2m, as this is a one-off cost and would distort the materiality level.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £47,500, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

The Group is made up of the main trading and parent entity of Morses Club PLC and two subsidaries, being Shopacheck Financial Services Limited and Shelby Finance Limited. These companies account for 100% of the Group's net assets, 100% of the Group's revenue and 100% of the Group's pre-tax profit. We performed testing over the consolidation which is prepared at the parent entity level only.

All entities in the Group are within our audit scope and the audit of these entities is performed directly by the Group audit team. These audits are executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £0.475m to £0.9m.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

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Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: – we have not received all the information and explanations we require for our audit; or – adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or – the parent company financial statements are not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.	We have nothing to report arising from these matters.
Our duty to read other information in the Annual Report Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – otherwise misleading. In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.	We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with the International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Matthew Perkins (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, United Kingdom

27 April 2017